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ABSTRACT

This document consists of an explanation of business incubator programs, descriptions of such programs in the 14 states funding them, descriptions of activity in four other states that are considering funding similar programs, and the names and addresses of existing business incubator program contracts. (CML)

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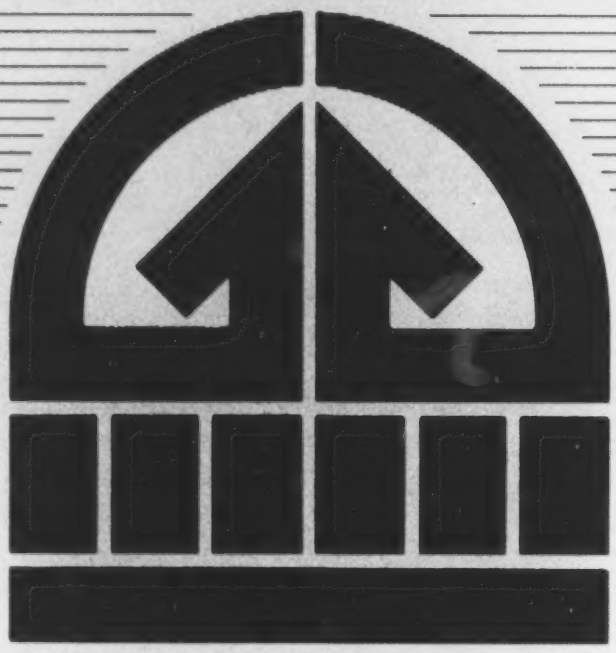

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OVERVIEW OF STATE-SUPPORTED INCUBATOR PROGRAMS: A 1988 UPDATE

by

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OVERVIEW OF STATE-SUPPORTED INCUBATOR PROGRAMS: A 1988 UPDATE*

In recent years, state policymakers have sought to increase the chances of survival for small businesses in order to provide jobs and strengthen a state's economic base. One method that a growing number of states have used is the business "incubator." At least 14 states have initiated incubator programs, most in the past few years. A business incubator operation generally transforms a multi-tenant building into a facility where a collection of businesses share services. Managers of the facilities nurture their new, small tenants with below-market rents, technical and financial assistance, and business advice.

Many states have enacted legislation that specifically creates a financial pool for incubator development. Other states' incubator programs are part of larger development initiatives aimed at promoting high-tech development or improving state provision of small business services.

The primary goals of publicly funded incubator programs are usually job creation and new enterprise development. These requirements must be fulfilled if businesses are to remain in a facility. State-supported programs have other ancillary goals, however, including product development, economic diversification and a desire to rekindle a spirit of entrepreneurship in the state.

The state's role in supporting incubators can encompass many approaches. The state may directly, or through a university, provide the building in which the incubator is housed. Some incubators are located in abandoned buildings that first have to be renovated because the size of the building and the support services might not be exactly what a particular business needs. A state may also supply managerial and administrative support for the incubator. In addition to providing low-interest loans or venture capital, a state may formally fund an incubator or seek a public-private partnership to back it. Finally, the most common state role today is issuing grants or loans designed to encourage private and local investment in an incubator.

This State Legislative Report is an update of the March 1987 publication, "Overview of State-Supported Incubator Programs." A companion report, "Business Incubators: A New Tool For State Economic Development" (March 1987) further addresses reasons for the increasing state interest in business incubator facilities; reviews the general characteristics of such operations; examines the types of sponsors of these programs; and considers some issues surrounding state involvement in this area.

*Publication of this update was made possible by generous support from the Institute for Local Government Administration and Rural Development at Ohio University, Mark Weinberg, director, and the National Business Incubation Association, Carlos Morales, executive director.

STATE ACTIVITY

Arkansas. The Arkansas Science and Technology Authority (ASTA) was authorized by Act 409 of 1985 to help establish business incubator facilities in cooperation with publicly supported colleges and universities. ASTA can make two-year grants for purposes such as the initial start-up of an operation and construction of the facility. ASTA received six proposals for the initial $1.9 million available, and projects were approved at the University of Arkansas at Fayetteville ($550,000) and at Arkansas State University at Jonesboro ($522,502). The former currently houses seven tenants while the latter just opened in January 1988 and houses one tenant firm.

After another round of applications in September 1986, three more projects were funded. The Little Rock Technology Center, sponsored by the University of Arkansas at Little Rock (UALR), was awarded $300,000 by ASTA's Business Incubator Program. Pryde, Roberts and Company, Inc., under contract with UALR, manages the incubator, and the university's Small Business Development Center provides management and technical assistance to tenant firms. Products of the six tenant firms range from biomedical products to laser weaponry. Other projects funded include the incubator at Southern Arkansas University at Magnolia ($327,000) and the North Arkansas Business Incubator System at Salem ($127,000). The incubator operation at Salem has a decidedly rural orientation, unlike other funded incubators.

The Arkansas General Assembly provided an additional $1 million in funding for the Business Incubator Program in the 1987 session. ASTA now recommends that proposed projects attempt to locate in existing buildings. The incubator building at Jonesboro was built in an industrial park. The building cost has forced this incubator to charge higher rent than other Arkansas incubators just to break even.

Illinois. As part of the "Build Illinois" plan, the Small Business Incubator Program was created in 1985 in the Illinois Department of Commerce and Community Affairs (DCCA). DCCA can make grants or loans for the start-up of incubator facilities to eligible applicants including communities, economic development agencies, non-profit organizations and educational institutions.

In fiscal year 1987, $6 million was appropriated for specific use by the incubator program. Of the 23 business incubator facilities currently in operation in Illinois, 19 have received initial funding through the program. No particular project types are targeted. Instead, DCCA initiates a competitive application process where diverse projects are considered. Facilities in urban areas such as Chicago and in smaller, western Illinois towns have been funded.

DCCA monitors the progress of funded projects on a monthly basis. Particular attention is paid to financial records once every quarter during the year. The program has made a commitment to fund viable incubator projects in Illinois for up to three years. At the same time, the ultimate goal of DCCA is to have incubators obtain self-sufficiency. Particularly crucial in this process for tenant firms is attracting outside capital and achieving a positive cash flow.

Iowa. Under Chapter 10 of the Iowa Code, the Iowa Department of Economic Development is authorized to make grant awards for incubators to eligible applicants including political subdivisions, regional authorities, educational organizations, chambers of commerce and non-profit development groups. Using receipts from the state lottery, the department will make one-time grants for up to three years for the establishment of a business incubator. Recipients must match any award made by the department and are required to submit quarterly reports during the grant period.

Three educational institutions have each been awarded grants of $80,000 to assist them continue the operation of their respective facilities. These institutions are the University of Iowa, Iowa State University and Des Moines Area Community College. Each incubator is currently selecting tenants. Approximately $250,000 in funding still remains for use by private applicants.

Kansas. Kansas Statutes Annotated 74-5040 gives the Secretary of the Department of Commerce the authority to establish incubators. The department may make one-time grants of up to $50,000, with local government and other interests at least matching in cash or real estate the value of the award. Only non-profit corporations that are affiliated with community industrial development committees or commissions established by counties or cities within the state are eligible to receive a grant, with the corporation providing the management and maintenance of the incubator.

The program currently remains unfunded because a conflict arose in the language of the authorizing bill between state law and federal Housing and Urban Development Block Grant regulations governing program administration. The state, however, is presently considering a proposal to use proceeds from the state lottery to fund the program.

Louisiana. The comprehensive Small Business Development Act of 1985 (Act 742), among other things, established the Small Business Incubator Program in the state Department of Commerce. The program can provide money to any qualified local entity, including private-for-profit, private non-profit and public organizations, to operate a small business incubator.

The Louisiana Small Business Development Corporation, the lending authority for state Commerce Department loan and grant programs, can loan or guarantee an eligible applicant up to 50 percent of the project costs, or up to $500,000, to establish an incubator. Loans or guarantees made under the program must be secured by a security interest in that portion of the fixed asset for which the loan is granted. The interest charged on any loan cannot be less than the interest paid by the state for bonds issued by the Small Business Development Corporation, nor can the interest exceed that rate by more than two percent.

Presently, the program has not made any loans. Funding is expected later this year, however, under newly-elected Governor Buddy Roemer. Funding sources other than the general fund are currently being studied.

Massachusetts. In January 1988, the Massachusetts legislature created the Small Business Incubator Program. Chapter 738 of the Acts of 1987 will allow the Massachusetts Government Land Bank to assist in the development of small business incubators in economically targeted regions of the Commonwealth. The Massachusetts Government Land Bank is authorized to

provide loans for the development of incubators or to develop directly a facility. Authority to finance small businesses in an incubator building and the capacity to make grants to support operating costs of the incubators are also included. Municipalities, non-profit economic development corporations and universities are eligible to receive assistance and must demonstrate the need for an incubator, the capacity to manage the facility and a workable plan for obtaining support. Furthermore, incubator projects funded by the Land Bank must be at least 25 miles apart.

Currently, the program remains unfunded. In the original bill, an appropriation of $900,000 was planned for the establishment of operating revenues and management assistance for incubators, and an appropriation of $1.5 million was planned for the establishment of a business capital fund for the facilities. This appropriation section was not included in the final bill, however. At the same time, some real estate financing is currently available through the Land Bank.

Michigan. Public Act 198 of 1984 allows the state Department of Commerce to support incubator centers. The department can award one-year grants of $50,000 for the start-up of centers. The purpose of these grants is to provide the bridge financing needed for the following: first-year incubator manager's salary; a loan fund for tenants; architectural work-up drawings; and building rehabilitation costs.

A community board consisting of key area representatives, including political, financial, business, labor, and education representatives, is created for each project. This board is responsible for advertising the concept, hiring the first manager and demonstrating a financial commitment of at least 50 percent for the first three years. In addition, the state Department of Commerce offers advice and assistance when possible and promotes through advertising the concept of incubator centers and their availability.

Initially, the program received $250,000 in funding. An additional $100,000 was appropriated in both fiscal years 1987 and 1988. Projects have been funded in Escanaba, Grand Rapids, Jackson, Southfield and Benton Harbor. Some data have already been collected on the status of these projects. For example, although the Business Innovation Center in Escanaba is only 25 percent occupied, the center director is pleased with its progress and the incentives that they are able to provide to new businesses. Most important, the center is a tangible, visible commitment of economic development in the area.

Alternatively, the Southfield Business Incubator is located in a building also occupied by the Southfield Chamber of Commerce. It has an 85 percent occupancy rate with 17 businesses and 65 jobs created. This incubator exclusively rents office space. The management feels it has outgrown its current location and is actively working on expansion of the facility.

Mississippi. In 1984, the Mississippi Legislature authorized the Mississippi Research and Development Center (MRDC) to aid in the development of incubator centers. Funding of $1 million was provided in 1985 for the MRDC to contract with a developer to establish a facility. Requests for proposals were issued and 10 were submitted for consideration. Irby Construction of Jackson was selected as the developer after the MRDC

Incubator Study Committee evaluated all of the proposals. The MRDC provided funding to Irby Construction for the purpose of capital improvements, guarantee instruments and operation subsidies. These funds will be repaid at the end of a 10 year period.

The incubator, known as the Jackson Enterprise Center, is located in a former General Electric plant, and currently houses 16 tenants. The management and staff of the incubator include an executive director, an on-site maintenance superintendent and a general office manager. A 13-member board of directors consisting of representatives from the state, private sector and the city of Jackson governs the incubator. A committee from the MRDC screens applicants to ensure a genuine need and workable business plan. In addition, the Research and Development Center provides support to the Center through its Business Service Bureau. Light manufacturing, assembly and service-type industries are being targeted.

A $75,000 loan has also been made for a planned project in Biloxi. Other projects will be built in Kemper County and at Meridian Community College beginning in April 1988.

Missouri. Missouri administers two incubator programs. In 1986, S.B. 554 established the Small Business Incubator Program under the direction of the state Department of Economic Development. Local sponsors can apply for loans or loan guarantees that assist incubators with the acquisition of land, structures and equipment. The local sponsor must demonstrate an ability to provide services, including financial counseling and marketing assistance, to the incubator in order to qualify. Loans may not exceed 50 percent of the total eligible project costs. Funding of $250,000 from general revenue has been directed to the program. An applicant from Poplar Bluff has been awarded a $50,000 loan, contingent on a grant from the federal Economic Development Administration. Two other applications are pending.

In addition, the Missouri Corporation for Science and Technology administers four Innovation Centers. The corporation, created in 1983, is governed by an 18-member board, consisting of representatives from the public, private and educational sectors. The General Assembly has appropriated a total of $5.3 million for the start-up of the Innovation Centers. The goal of each Center is to provide technical, managerial, financial and marketing assistance to existing and start-up technology-based firms.

The centers are required to be non-profit corporations with separate incubators established to serve as business operations capable of creating income streams and profit potential.

New Jersey. Since its creation as a permanent agency in April 1985, the New Jersey Commission on Science and Technology has designed and established a comprehensive array of programs that support the development of various advanced technologies. One component of the commission's program is business incubation development. In fiscal year 1987, $150,000 was appropriated specifically for this purpose. The commission has used this money to help launch incubators closely linked to the state's universities and research centers.

For example, Rutgers University, Steven's Institute of Technology and the Southern New Jersey Technology Consortium each received grants of $30,000 from the commission to create plans for incubators that will cater to new, advanced technology businesses. Steven's Institute, in Hoboken, which is the first to proceed with the development of its incubator facility, will receive another $60,000 to acquire equipment that will be shared by all tenants. Additional funding of $210,000 was appropriated for fiscal year 1988. Grants of $60,000 each have been awarded to the Southern New Jersey Technology Consortium, the New Jersey Institute of Technology and Rutgers University. Princeton University is also expected to receive $30,000 for a feasibility study. Finally, Governor Thomas H. Kean has recently proposed that the incubator program receive $180,000 for fiscal year 1989.

At the same time, the New Jersey Legislature is considering a bill that would authorize the state Department of Commerce and Economic Development to contribute grants of up to 75 percent of the cost of establishing an incubator sponsored by local government units, non-profit organizations and educational institutions.

North Carolina. The New Technology Jobs Act of 1983 created the Incubator Facilities Program under the administration of the North Carolina Technological Development Authority. The program provides grants of up to $200,000 to municipalities, counties or groups of counties to establish community-based business incubators. The authority requires that the applicant at least match, in cash or real estate value, the funding provided. An additional $35,000 per applicant is available for first-year operating expenses. The General Assembly has appropriated $2 million for 10 centers, and an additional $350,000 for the first-year operating expenses.

Applicants may not be private, for-profit concerns. In 1985, however, the legislature repealed a state ownership provision, thus allowing political subdivisions to own their operations. The authority prefers that the recipient of a grant be a new, non-profit corporation formed from the particular groups listed above. Funds may be used for building renovation, construction of new facilities, the purchase of office and other types of equipment, and other capital expenditures essential to the start-up of an incubator. Recipients will be responsible for the management and maintenance of the incubators.

Five projects are currently in operation, with another two in various stages of initial development. Additionally, enough money remains to fund up to three more projects. All but one of the current incubators target rural-based economic development strategies.

Ohio. Ohio's plan to encourage technological innovation and economic development is fostered by the Thomas Edison Program. The $100 million plan features nine Technology Centers, a seed development fund and six "high-tech" incubators. The Edison Incubator Program has put forth $2,215,000 in matching grants to fund the incubators. Grant decisions are made by an advisory board composed of private individuals and state legislators. The incubators are noteworthy because tenant firms all incorporate an innovative technology.

In making its awards, the Edison program attempts to determine which organizations seem to offer the greatest potential for starting new

businesses and creating new jobs for Ohio's economy. As with other Edison initiatives, the incubators are linked with Ohio educational institutions. The organizations are generally non-profit business-university partnerships. Organizational members of the incubators provide matching funds through private contributions or federal government grants.

As of mid-1987, 12 companies had graduated from the six incubators. Approximately 400 new jobs had been created by the tenant firms. The six incubators are also members of the recently created Ohio Incubator Association, an organization that will provide training and professional development opportunities to all 16 Ohio incubators.

Pennsylvania. In 1984, voters overwhelmingly approved a $190 million bond program to promote economic development throughout the Commonwealth. Legislation establishing 11 specific programs was enacted in July 1984. Among them, Act 111 (P.L. 555) as amended provides authority to the Ben Franklin Partnership--a public-private partnership of business, labor, higher education and government administered by the state Department of Commerce--to provide grants and loans to help establish small business incubator facilities.

Applicants must demonstrate that they or their organizations possess the management capability and financing necessary to operate an incubator. Eligible applicants include municipalities, economic development groups, private for-profit firms, private non-profit agencies and industrial development agencies. The total of grants or loans under the program may not exceed 50 percent of total eligible project costs, or $650,000, whichever is less. Originally, the funds could only be used for the acquisition of existing buildings and land, the rehabilitation of buildings and the purchase of equipment for the facility. Recently, however, the legislation was amended to allow funding to be used for construction of new incubator facilities. Grants of up to $240,000 are also available to facilities located in economically distressed political subdivisions.

At present, 14 projects have been funded. Of these, nine are already in the operational stage. The Partnership also directly supports Pennsylvania incubators in two other ways. Challenge grant funds can be used for incubator feasibility studies and to provide business development services for tenants. In addition, the managers of the Partnership's Seed Venture Capital Fund are given additional information on incubator tenants for possible investment.

South Carolina. The state of South Carolina has taken an unusual approach in supporting incubator development. As a result of a recommendation by then-Governor Dick Riley's 1983 Task Force on Economic Development, the state has formed a working relationship with Control Data Corp., the computer/financial services company based in Minneapolis, Minn. Control Data has created a number of "business and technology centers" (BTC's) nationwide. These operations rely on a multi-faceted approach to small business development by providing facilities, business services and planning and financial assistance. Control Data has subsequently created five BTCs in South Carolina (Charleston, Spartanburg, Rock Hill, North Augusta and Florence). The Charleston BTC is fully owned by Control Data, whereas the other four are limited partnerships with in-state investors as the other partners. All five of the operations are private, for-profit ventures.

The BTC's were created under contract with the state of South Carolina. Each sponsoring city was provided with a grant of $50,000 from the state for the purpose of buying a license from Control Data and setting up business assistance centers. The South Carolina Development Board coordinates state business incubator assistance efforts. However, Control Data screened and selected the BTC locations.

OTHER STATE ACTIVITY

Additional states are also pursuing the concept of state-supported incubator development. For instance, in Alabama the Department of Economic Development and Community Affairs has used Community Development Block Grant money to make $300,000 awards to three Alabama cities. These initiatives are seen as pilot projects to be studied. In addition, a Small Business Incubator Advisory Council has been created. The members, appointed by the governor, will make recommendations about future Alabama activity in incubator development.

Similarly, in Delaware a four-point comprehensive program to support the creation of new entrepreneurial firms in Delaware has been recommended to the state's Development Office by the Technical Advisory Service of the National Council for Urban Economic Development (CUED). The proposed corporation, Initiatives in Delaware for Entrepreneurial Advancement, Inc. (IDEA), would support local initiatives to create incubator facilities throughout the state, among other activities. A report, Incubators in Delaware: An Evaluation and Needs Assessment, presents a strategy for designing an enterprise development program with the support of universities and the private sector. CUED was retained by the Delaware Development Office after the legislature passed a resolution to review the state's potential for incubators.

In Washington state, a bill is currently receiving attention that would allow $200,000 of the Local Development Matching Fund to be used for incubator feasibility studies and project development. The fund, administered by the state Department of Community Development, is currently used for various economic development planning and operating projects at the local level.

Finally, the activity in Indiana points to the definitional problems one encounters when trying to classify state development programs. Indiana's Institute for New Business Ventures has been mistaken for a state-supported incubator program. The institute, a non-profit corporation, was created by the Indiana legislature to encourage and support the development of growth-oriented enterprises in the state. It serves as a catalyst, linking entrepreneurs with the management, technical and financial resources necessary to start and operate a new enterprise. Although the institute provides many of the services a typical business incubator would, this program does not operate a facility per se, but rather acts as an information and assistance outlet for Indiana businesses. There is currently a proposal in the legislature, however, that would allow the institute to provide matching grants to local operations interested in starting business incubators.

APPENDIX A

BUSINESS INCUBATOR PROGRAM CONTACTS

ARKANSAS CONTACT:	Chuck Myers Project Manager Arkansas Science and Technology Authority (501) 371-3554
ILLINOIS CONTACT:	Dean Klovens Manager Small Business Incubator Program, DCCA (312) 917-2330
IOWA CONTACT:	Tom Beightol Community Consultant Division for Community Progress Iowa Department of Economic Development (515) 281-8477
KANSAS CONTACT:	Bradley Mears Assistant Director for Existing Industry Development Kansas Department of Commerce (913) 296-5298
LOUISIANA CONTACT:	Nadia Goodman Louisiana Department of Commerce (504) 342-6441
MASSACHUSETTS CONTACT:	Karl Seidman Massachusetts Government Land Bank (617) 727-8257
MICHIGAN CONTACT:	Jean Johnson Local Development Services Bureau Department of Commerce (517) 373-0638
MISSISSIPPI CONTACT:	John Spitchley Manager of Regional Assistance Centers Mississippi Research and Development Center (601) 982-6714
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NEW JERSEY CONTACT:	Hugh Fenwick Venture Development Officer New Jersey Commission on Science and Technology (609) 984-1671

NORTH CAROLINA CONTACT: Juliann Tenney
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